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Chiang's Review Reveals Poor Oversight of Prop 40 Bond Funds

SACRAMENTO – State Controller John Chiang today released a review uncovering a lack of oversight and accountability of Proposition 40 grant payments made by the California Conservation Corps (CCC).

Proposition 40, passed in 2002, provided \$2.6 billion to conserve natural resources, improve state and local parks, and to preserve historical and cultural resources. The Controller's Office reviewed the fiscal operations and practices of the CCC and identified serious control deficiencies and oversight lapses in its administration of \$20 million in Proposition 40 grants to acquire, develop, restore and rehabilitate land and water resources.

"Considering the Conservation Corps is poised to deliver \$45 million in bond funds approved by voters this past November as part of an historic infrastructure package, it's essential for the public's trust that we strengthen the internal controls and eliminate the lack of oversight that could lead to any improper use," Chiang said. "We must move quickly to address the concerns in this report and ensure that the upcoming round of bonds deliver the infrastructure that Californians envision."

In assessing the CCC's administration of the bond funds, the Controller's Office found minimal standards in place to hold projects accountable from the time the projects were awarded through completion.

Although the review did not disclose significant instances of inappropriate use of grant funds, the review did expose that the CCC's oversight and control measures were so lacking that they invited fraud, waste and abuse. The findings include:

- Application files lacked complete documentation to demonstrate the CCC adequately evaluated the proposals to meet State requirements and that the projects carried both a defined timeframe and deliverables.
- The CCC did not establish adequate oversight and control measures to safeguard the State's assets, including evaluating the financial well-being of the grantees in relationship to their ability to complete the projects. Also, the CCC did not require independent appraisals in accordance with common business practices to support real estate transactions.
- Project files contained minimal documentation of oversight activities and revealed no on-site inspections and status reports.

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- Local Conservation Corp recipients failed to follow internal control requirements which led to advance payments being used for rent and cash-flow without the CCC's knowledge.
- The CCC did not provide any evidence to support their administrative expenditures nor did it earmark a portion of their administrative budget for oversight.
- The CCC staff provided erroneous advice to a grantee which complicated the project construction effort.

The Controller's Office recommended that the CCC adopt formal policies and procedures to govern their grant administration program. To ensure proper accountability, the Controller recommended creating a plan on the front-end with performance standards for projects prior to funding, in-progress accountability to document the ongoing actions needed to ensure projects stay on-time and on-budget, and follow-up audits on completed projects to ensure the payments stayed within the projects' goals.

The CCC agreed with the report's findings and recommendations and is working on control measures that restore fiscal integrity before disbursing the Proposition 84 bond proceeds.

"While I applaud the CCC for working to fix the problems identified in the report, the department is but one agency charged with handing out some of the \$42.7 in public works projects," Chiang said. "To safeguard Californians' investment, we must fortify oversight and accountability measures across the board."

Controller Chiang and Treasurer Lockyer have co-sponsored SB 784 (Torlakson) to ensure maximum accountability and transparency by tightening the State's ability to oversee the \$42.7 billion of infrastructure bonds. The bill would allow the Controller and Treasurer to track the plans and progress of each project funded by the bond proceeds and let the public follow each the public works endeavors online. Also, the legislation would enhance the Controller's ability to audit the bond projects to maximize the best use of taxpayer dollars.

The [report](#), including a response from the CCC, can be found on the Controller's Web site at www.sco.ca.gov.

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